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July 21, 1982

Mr. William Casey
Director
Central Intelligence Agency
Washington, DC 20505

Dear Mr. Casey:

The Military Economic Advisory Panel held its spring meeting on May 21 and 22. We had several productive sessions with the Soviet Analysis group, and also held initial meetings with the European Analysis staff that will, I am sure, lead to fruitful cooperation in the future. As you are well aware, much of the value that the Agency receives from MEAP arises from the give and take that occurs at the sessions themselves, which therefore does not need to be noted in our correspondence; several of our discussions in the areas of the state of the Soviet economy and the Bloc's critical hard currency crunch fall into this category.

There are four topics which I would like to take up with you, however. Three of these are familiar from past correspondence. I am happy to report good progress on the first of these, the development of an indicators strategy. In my last letter, I described this as, "an explicit attempt to define and develop the factors we should look for, to indicate how the Soviets will eventually resolve their 'guns versus butter dilemma'." Agency analysts have undertaken a major, well-conceived research effort entitled, "Military and Foreign Policy Consequences of Deteriorating Soviet Economic Performance," an effort which will encompass and, in fact, go well beyond the indicators strategy. We are pleased to see this effort and are working directly with the study group to provide contributions to this serious enterprise. (I'll return to this subject later.)

Second is the continued need for a thorough but comprehensible paper discussing the uses, types and limitations of US-Soviet comparisons of military expenditure in dollars and rubles. Outside interest in such comparisons has flagged a little, and perhaps this is to the good, considering the frequency of distortions in non-Agency uses of the numbers. Nevertheless, the comparisons are important in their own right and may become again a focus of public interest under conceivable conditions. Therefore, it remains important to explain the calculations in ways that deal with the major technical issues and are also accessible to the various interested audiences. We are pleased that SOVA has now agreed to try to prepare such a paper after discussion of its coverage and general outline with a member of the Panel.

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The third topic, worth repeating even though there is little new to add, is the desirability of using other than career analysts to supplement or replace Agency intramural efforts in a number of areas. There seems to have been some real improvement in attitude toward, and appreciation of, the potential benefits of such a policy, but there is as yet no program to implement this idea. Outsiders would be particularly useful in areas where much of the material comes from unclassified sources, as in Eastern European economic analysis.

A fourth point is to encourage the Agency to continue its difficult studies in the general area of population analysis and quality of life. Regional variations are becoming very important, as shown by the observation that more people are emigrating from Siberia than immigrating to it, in spite of the S.U.'s industrial requirements.

Finally, I come to the most important topic of this letter. This is a topic of some delicacy, because it goes beyond the question of intelligence to skirt the area of policy advice. The topic is the implications of deteriorating Soviet economic performance (as opposed to the research issue discussed earlier). The research work is underway and there is the great risk of trying to anticipate the results, but nevertheless the picture that is starting to emerge of Soviet economic and military prospects is so profound that it is worthwhile to start to sketch it now.

But first, some disclaimers. The Soviet system operates as a crisis system--economic incentives are so weak, and the role of the party leadership in mobilizing and motivating shock troop attacks on specific problems is so deeply ingrained, that one could easily mistake the "normal" functioning of the Soviet economy as that of a failing system moved to desperate measures. The military economy continues to perform strongly, turning out large numbers of high-performance weapon systems that have succeeded in reducing our technological leads in several areas, while maintaining Soviet advantages in numbers or other quantitative measures (e.g., ICBM payload). And finally we see in the USSR no echo of the worker dissidence, nor of the channels for making this dissidence felt, that is such an important factor in Eastern Europe.

Nevertheless, Soviet leaders appear to be facing a combined and prolonged economic, political, security and leadership crisis such as they have not seen since at least 1952, and it is not easy to see how they will work their way out of it. Soviet economic prospects--poor agricultural performance, declining population increments, flat energy production, growing costs of subsidizing the COMECON countries--seem bleak for the rest of this decade and will probably grow worse rather than better in the decade of the 90's. The lack of prospects, degree of corruption, and general decline in consumer standard of living facing Soviet citizens is unprecedented in recent years. The continued political and economic threats

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to the Eastern European system appear particularly grave, in that almost all of these countries have serious economic and external debt problems requiring financial aid that the Soviets cannot afford, and appear to require drastic belt-tightening that few of the regimes are in position to impose. The Soviets see the instability in Eastern Europe as a fundamental threat to their own security. At a time when reforms are long overdue in their internal economic and Eastern European relations, they have no successor to Brezhnev in view who has the youth or vitality to carry out the needed reforms. Even looking past the current generation of potential successors, one sees the likelihood of a transitional group followed by a generational gap, leading to no obviously qualified candidates to replace the successor some five to ten years hence.

Having assessed the depth of the Soviets' crisis, I believe that the intelligence community must put this crisis in perspective. The Soviet Union's acute problems are not likely to be made more serious by short-term actions that the U.S. or our allies could take. The Soviets are here to stay, and are not that vulnerable to sanctions or other steps. My personal belief is that the Government's focus on short-term economic sanctions and threatened military actions, whatever their potential benefits, is obscuring a once-in-a-generation chance to affect Soviet behavior over the next decade or longer. I do not profess to know what is the proper course of U.S. policy toward the Soviet Union for the next six to ten years, nor would I ask that such a recommendation come from intelligence advisors. However, I do believe that it is proper for the community to call attention to the long-term nature of the crisis facing the Soviets, and to the need for the U.S. to develop a long-term policy toward the Soviets, taking the depth and duration of the Soviets' plight into account. I hesitate to recommend the vehicle by which a small number of longer-term policy alternatives can be developed, analyzed and compared, although an NSC study with high level inter-agency participation, for about half a year, suggests itself. What is most important, however, is to recognize the Soviets' situation, not to overestimate their near-term vulnerabilities, and to take seriously the value of a thorough, longer-term policy study to seize this opportunity.

As usual, the Panel and I am available at your convenience for any follow-on discussion or study that you might find useful.

Sincerely,

[Redacted Signature]

[Redacted Initials]

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